



National Bank of Serbia

SERBIA REFORM PROGRAMME: WHAT CAN WE LEARN FROM PAST MISTAKES

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Governor of the National Bank of Serbia

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Results

Chart 1. Inflation

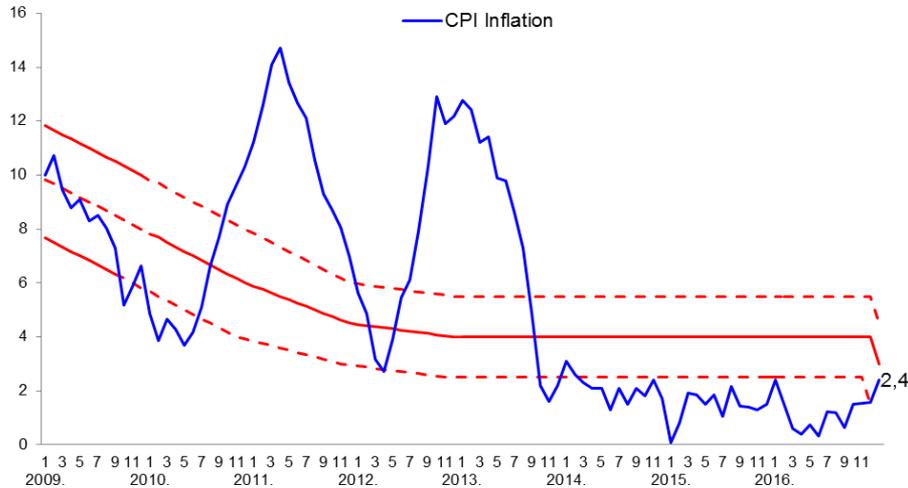


Chart 2. Exchange Rate

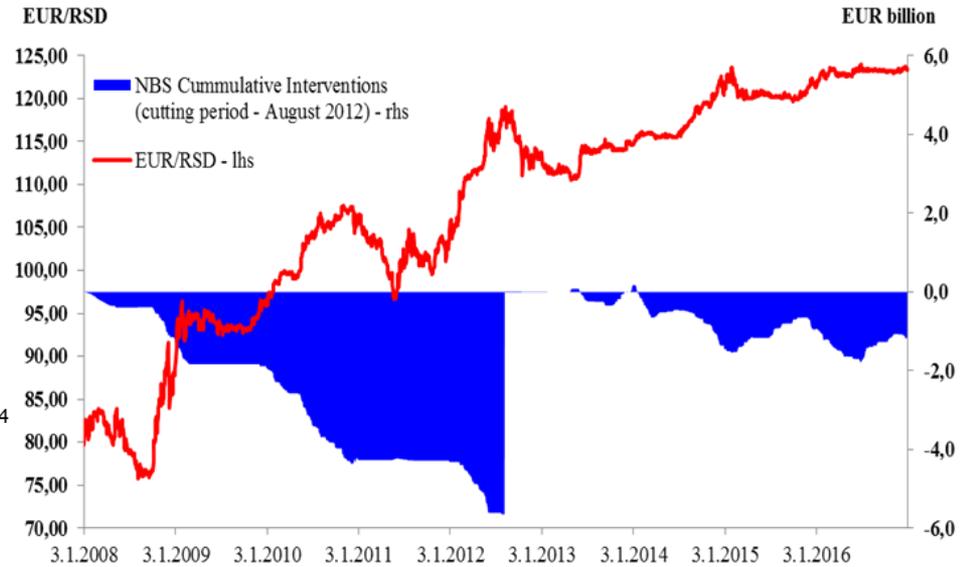


Chart 3. Interest Rates

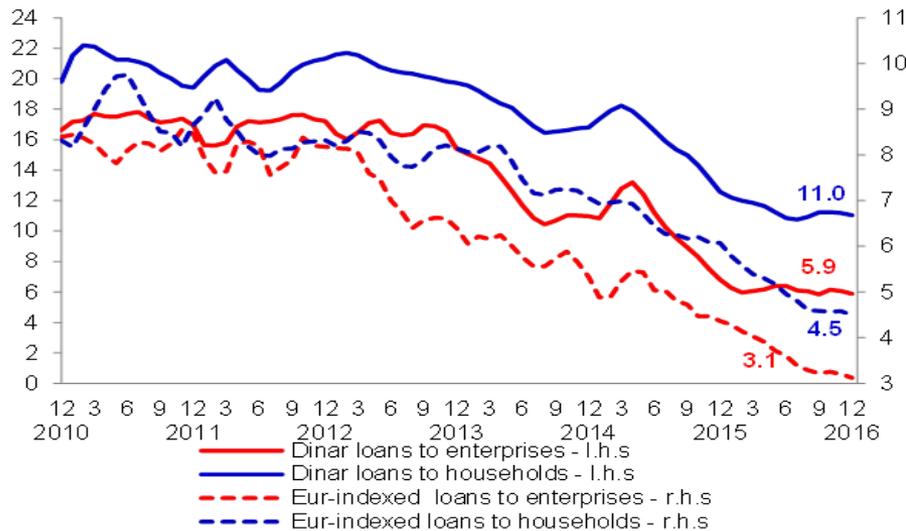
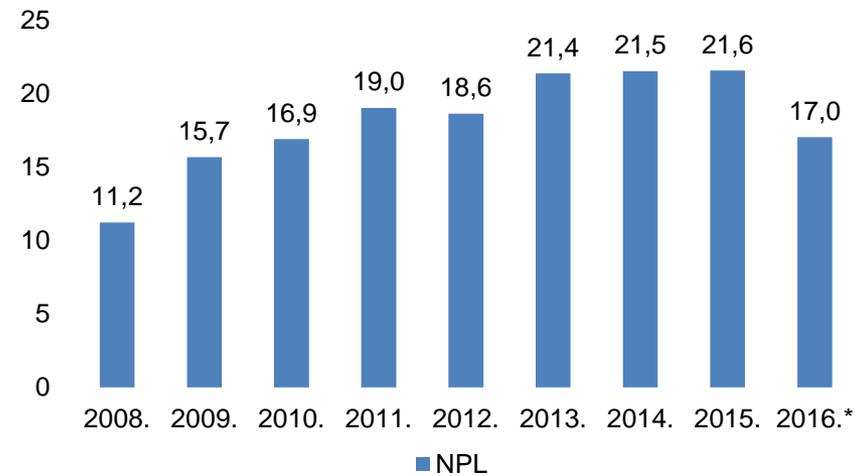
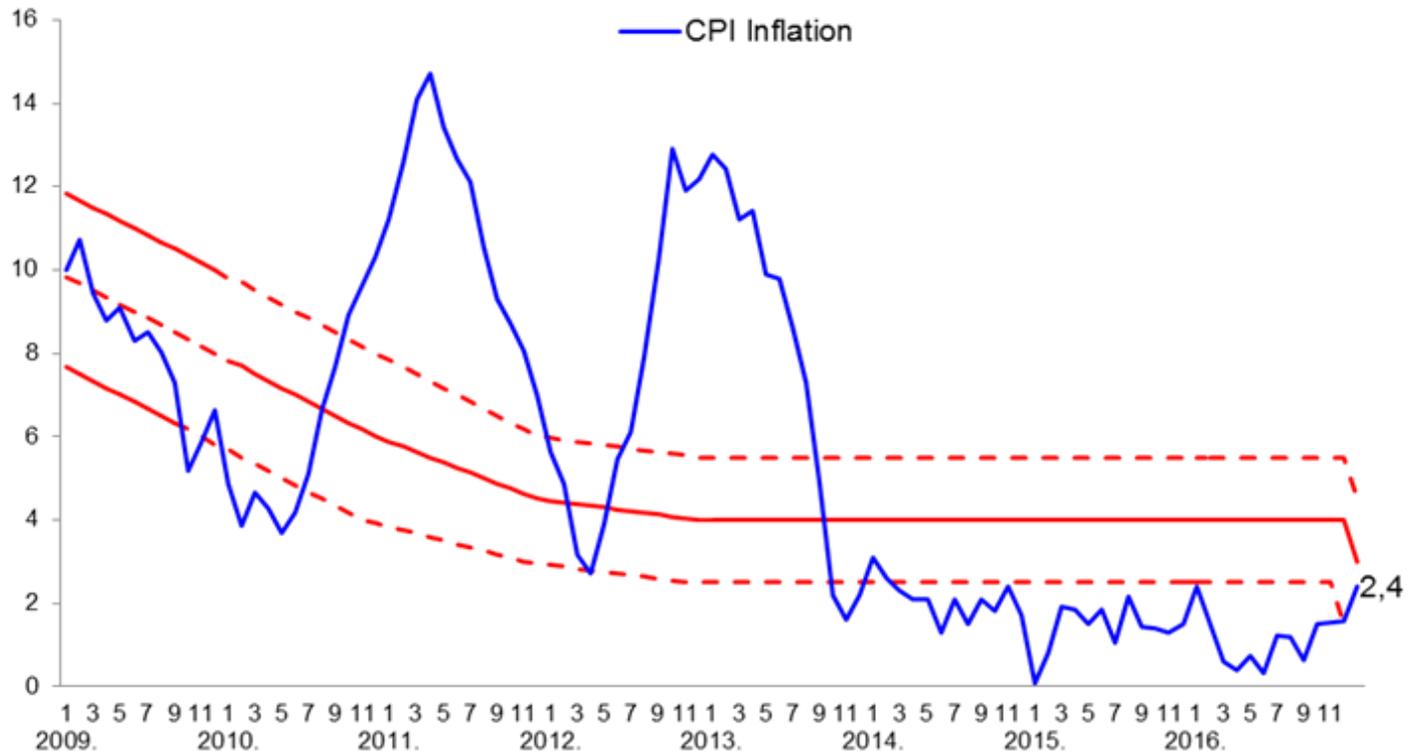


Chart 4. NPL ratio



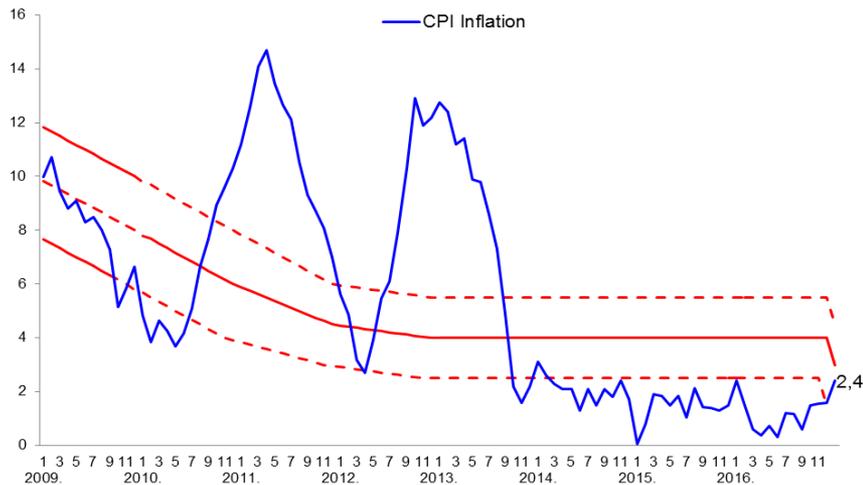
Inflation



Inflation Low and Stable for More than Three Years

Inflation remained low and stable in 2016 due to both domestic and external factors...

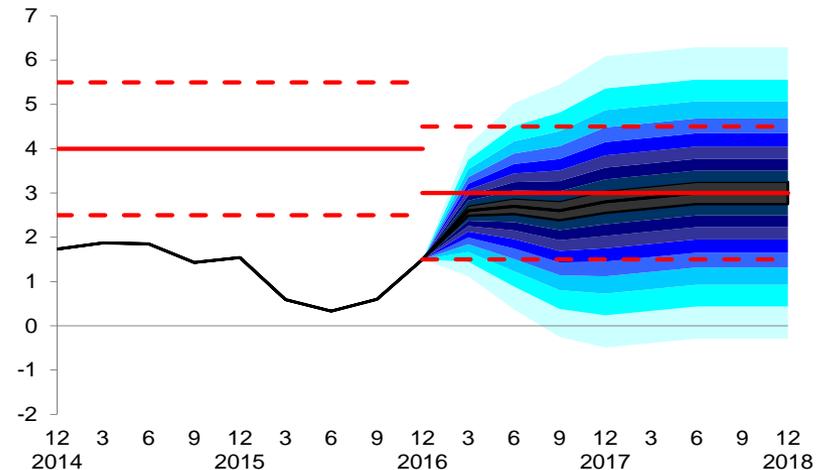
Chart 5 CPI developments
(y-o-y rates, in %)



- Within domestic factors, low inflation pressures were the result of fiscal consolidation effects, relative stability of the exchange rate, successful agricultural season, as well as **low and stable inflation expectations of the financial and corporate sector which are within the target tolerance band.**
- When it comes to external factors, key reasons for lower inflation were low primary commodity prices and generally low overall inflation abroad.

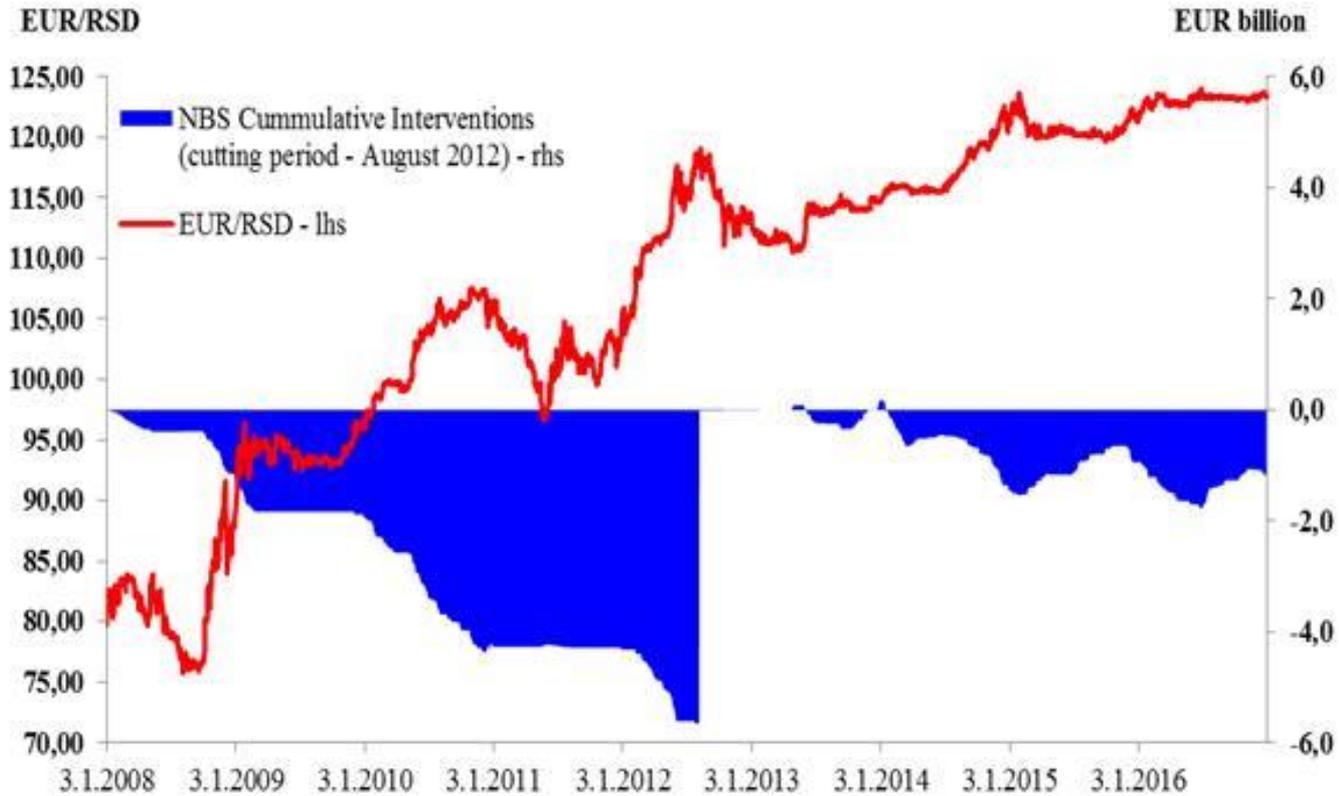
...and from the beginning of 2017 it will be moving within the new target tolerance band

Chart 6 Inflation projection (from February 2017 IR)
(y-o-y rates, in %)



- Inflation will remain low and stable and will move within the new target tolerance band ($3 \pm 1.5\%$) from the beginning of this year. Such inflation movements will, in the short run, be affected by low base and higher energy prices, and in the mid-term by growth of domestic demand and recovery of global inflation.
- The risks to the projected inflation path are symmetrical and associated primarily with developments in global financial and commodity market.

Exchange Rate



Sustained Relative Stability of EUR/RSD Exchange Rate

Chart 7. Exchange Rate and NBS Interventions

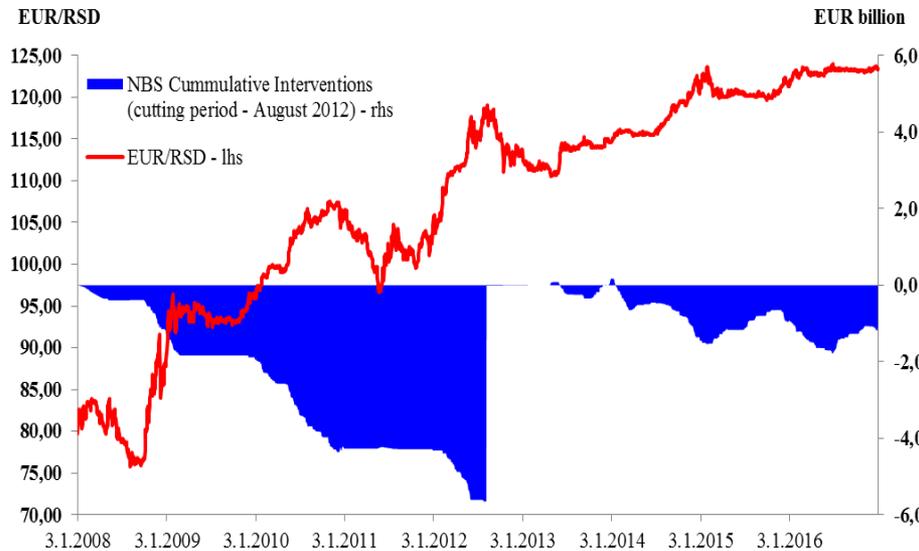
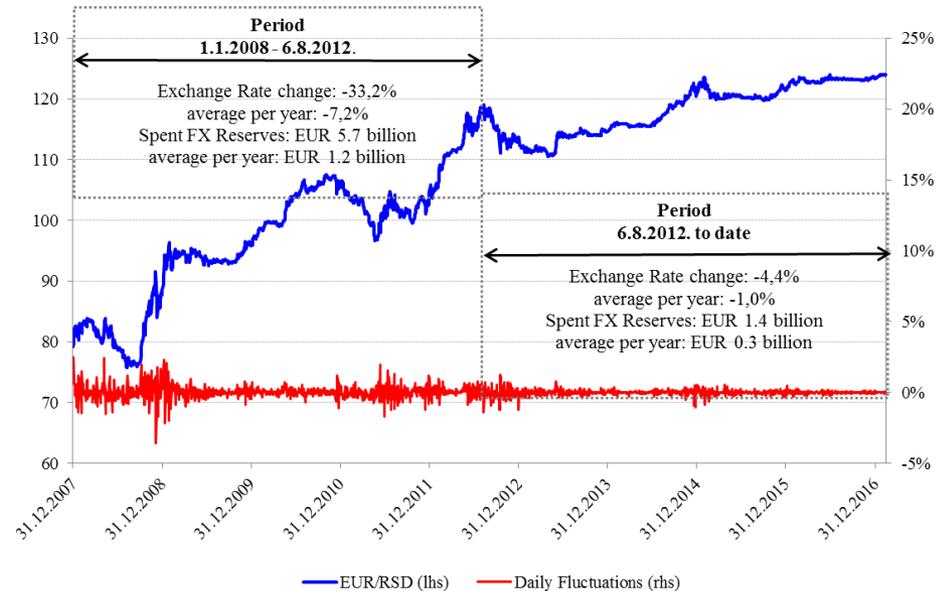
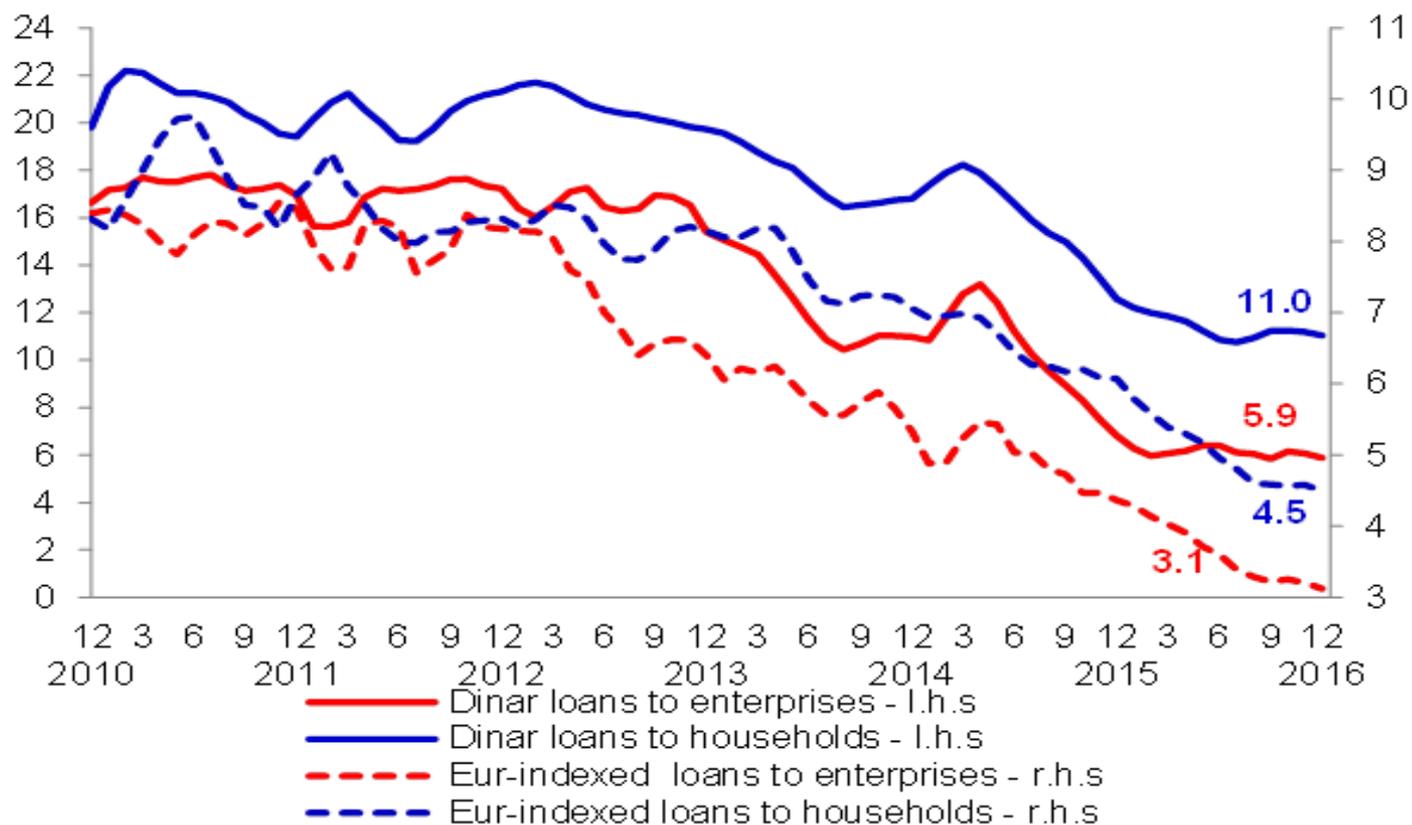


Chart 8. Exchange Rate, NBS Interventions and Daily Fluctuations of the Exchange Rate



- In the last 4 and a half years relative stability of the exchange rate has been achieved and sustained.
- Taking into account the level of euroisation and the exchange rate pass-through effect, sustained relative stability of the exchange rate has contributed significantly to low and stable inflation and Serbian financial system stability.
- The National Bank of Serbia carefully monitors and assesses the strength of external shocks and reacts by mitigating excessive short-term volatility of the exchange rate in both directions.

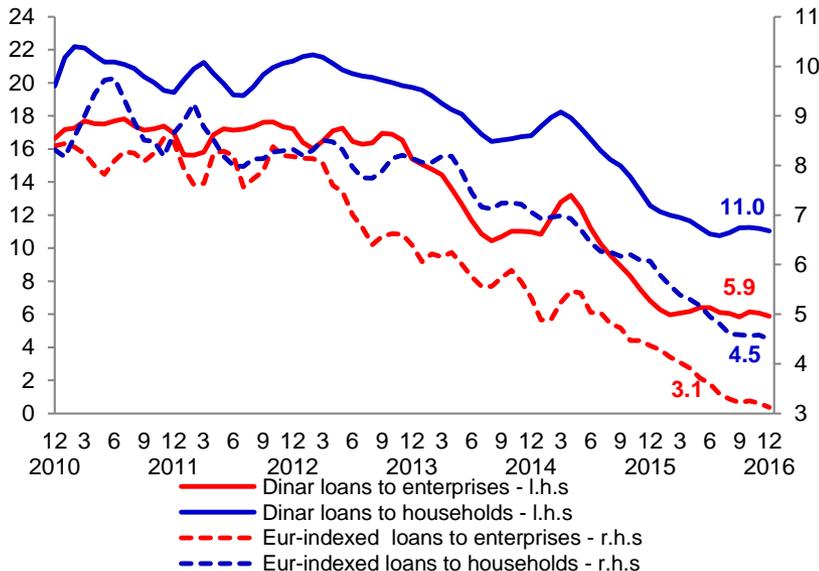
Interest Rates



Fall in Interest Rates is Supporting the Recovery of Lending Activity

Interest rates on dinar loans have declined significantly over the last three years

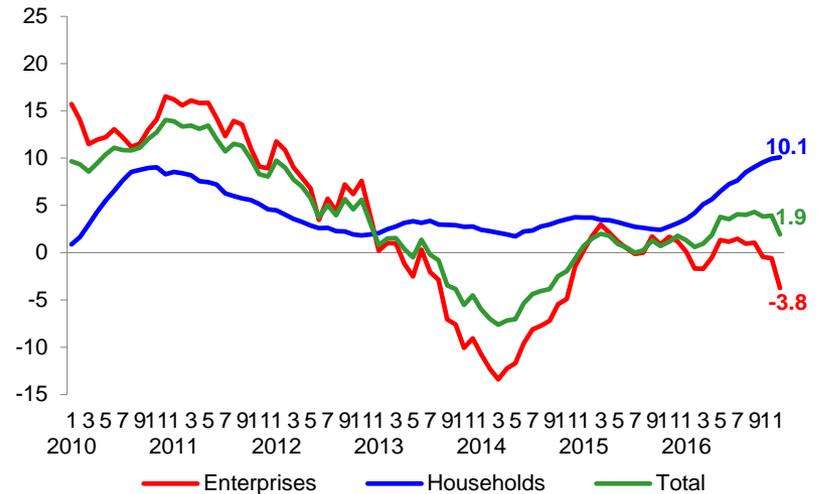
Chart 9 Interest rates on loans – new business
(3 months moving average, in %)



- Monetary policy relaxation from May 2013 (by 7.75 pp) was the main driver of the strong fall in dinar lending rates.
- In December, interest rates on new dinar loans stood at 5.4% for corporates and 10.8% for households.

We expect economic recovery and lower costs of financing to remain the main drivers of bank lending

Chart 10 Bank lending to enterprises and households
(y-o-y rates, constant exchange rate 30 Sept 2014, in %)



- Domestic lending rose by 1.9% y-o-y in December 2016, driven by growth of lending to households (10.1%).
- Excluding the effect of write-offs of corporate loans (RSD 42 bln in 2016) and early loan repayment by a public enterprise to domestic banks in October covered by a cross-border loan, the y-o-y rise in corporate loans equalled around 1.5% in December.

Reduction in Internal Imbalances

Significant fiscal adjustment in 2015 and 2016...

...resulted in a decline of public debt-to-GDP ratio in 2016, which will continue in the coming years

Chart 11 Fiscal revenues, expenditures and result (% share in GDP)

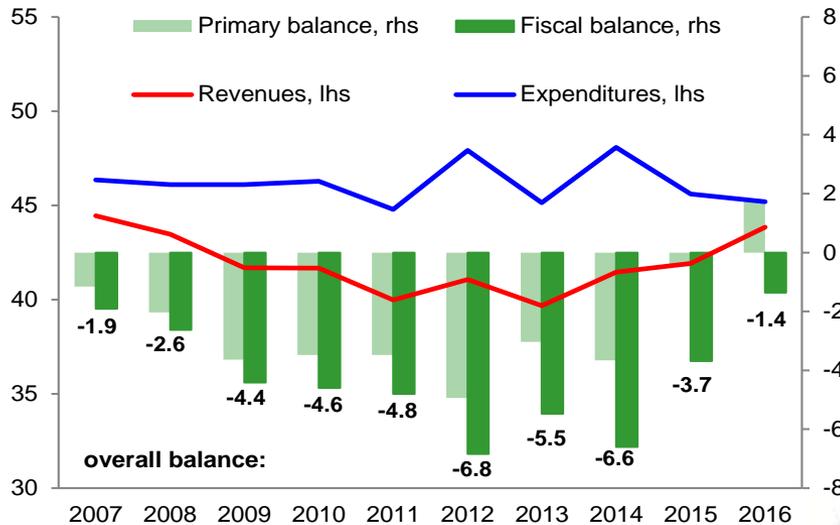
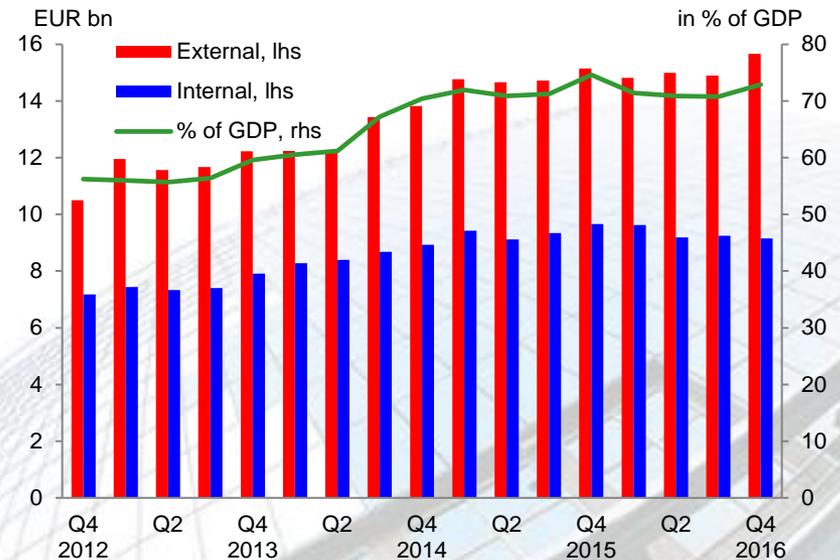


Chart 12 Public debt (central government) (EUR bln)



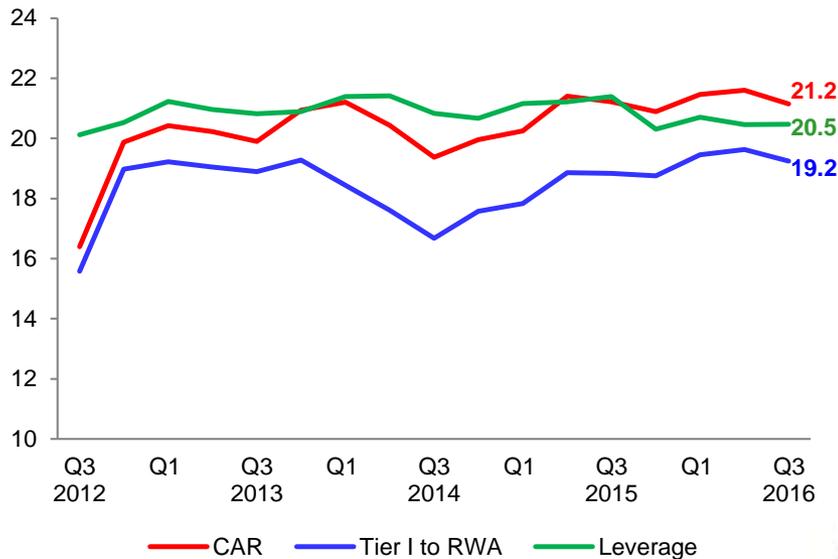
- After a sharp decline in 2015 from 6.6% to 3.7% of GDP, the fiscal deficit contracted further in 2016 – to 1.4% of GDP.
- The 2016 improvement was driven primarily by higher revenues (by 1.9 pp of GDP), including improved collection of all tax revenue items.
- On the expenditure side further savings have also been recorded (of 0.4pp of GDP).

- Central government debt amounted to EUR 24.8 bln (72.9% of estimated 2016 GDP) at end-2016.
- Public debt-to-GDP ratio declined in 2016, one year ahead of schedule.
- Measures to continue the structural adjustment include reforms of public enterprises and rightsizing of the public sector.

Conservative Framework Created a Resilient Banking Sector

High banking sector capitalisation as a result of strong prudential measures

Chart 13 Capitalization of the Serbian banking sector (in %)



- As a result of conservative prudential measures in the previous period, Serbian banks have built up strong capital buffers, enabling them to cope with credit risk, which is still relatively high.
- The quantitative impact study has shown that Serbian banks would not have difficulties to comply with Basel 3 minimal capital requirements.

Stress tests show that the Serbian banking sector is resilient to potential adverse shocks

Table 1 Core FSIs

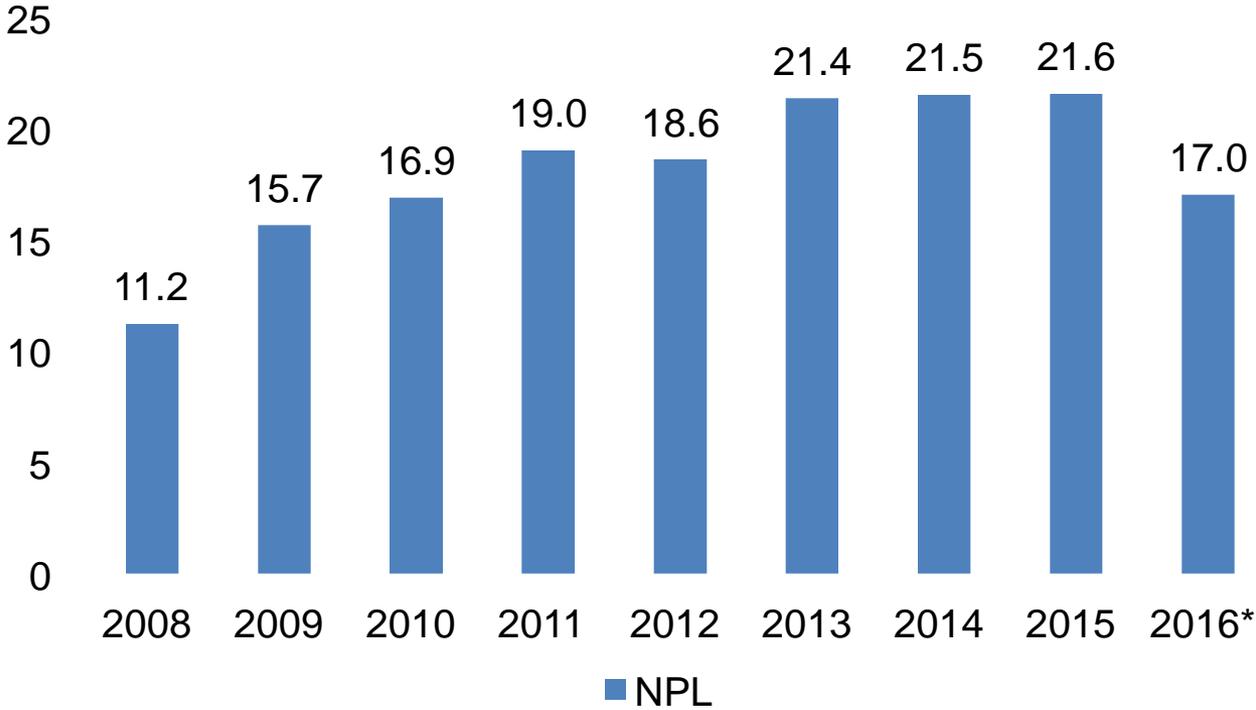
Core FSIs – December 2016 data*

CAR*	21.2%
Tier I to RWA*	19.2%
Liquidity indicator (reg. min 1.0)	2.1
Gross NPL	17.0%
Gross NPL LLR coverage	131.4%
Gross NPL IFRS coverage	66.7%
NOP	3.9%
ROA	0.9%
ROE	4.3%

* Preliminary data before final accounts

- As a result of adopted measures, the share of NPLs declined by 4.6 pp to 17.0% (lowest level since January 2011). Narrowing was most evident in case of corporates – share reduced by 6.0 pp to 17.5%.
- Their coverage by IAS/IFRS provisions and regulatory reserves for estimated losses is on the rise as well.
- According to preliminary data, profitability is better than in 2015.

NPL Ratio



NPL Resolution Required a Systemic Approach – and, as Such, Gave Results

Table 2 **NPL Data**

NPL data, December 2016*			
	Gross loans (EUR bln)	Gross NPL (EUR bln)	NPL ratio (%)
Corporates	7.3	1.3	17.5
Households	6.8	0.7	10.0
of which: natural persons	6.0	0.6	9.3
Corporates in bankruptcy proceedings	0.7	0.7	99.9
Other	1.8	0.2	11.0
Total	16.4	2.8	17.0

* according to preliminary data, before final accounts

- The share of NPLs is still relatively high, but is on a downward trend – NPL ratio in December was 4.6 pp lower compared to 12 months before. This indicator fell to the lowest level since January 2011.
- Companies have the largest share in NPLs, especially those engaged in manufacturing, trade and construction activities, as well as non-financial sector entities in bankruptcy procedure.
- NPL resolution efforts made by banks, as well as regulatory measures aimed at the recovery of lending activity are expected to stimulate further decrease in the share of NPLs.



National Bank of Serbia

Thank you!

